

MINUTES
March 21, 2003
Stevens T Mason Building
6th Floor East Conference Room, Lansing, Michigan

NRC POLICY COMMITTEE ON FINANCE AND ADMINISTRATION

Investment Asset Allocation
Budget Update
Payment in Lieu of Taxes (PILT)
Game and Fish Fund, Federal Funds

PRESENT:

Commissioner Bill Parfet, Chair
Commissioner Frank Wheatlake
Commissioner Keith Charters
Administrative Services Deputy Kelli Sobel, DNR
Resource Management Deputy George Burgoyne, DNR
Financial Services Chief Joe Frick, DNR
Budget Development and Support Services Chief Sharon Schafer, DNR

OTHER ATTENDEES:

David Bertram, Michigan Townships Association
Bill Bobier, Michigan United Conservation Clubs
Rich Bowman, Michigan Council of Trout Unlimited
Bonnie Ekdahl, Saginaw Chippewa Indian Tribe
Joe Fivas, Speaker Rick Johnson's Office
Dennis Fox, Lt. Governor's Office
Tom Frazier, Michigan Townships Association
Tom Hickson, Michigan Association of Counties
David Johnson, Michigan State Waterways Commissioner
Kirk Lindquist, House Fiscal Agency
Chris Meyer, Fund Evaluation Group
Paul Nelson, Bureau of Investments, Treasury
Jessica Runnels, Senate Fiscal Agency
Representative Susan Tabor
Scott Butler, DNR Financial Services
Dawn Fedewa, DNR Budget and Support Services
Amy Henderson, DNR Financial Services
Becky Humphries, DNR Wildlife
Dennis Knapp, DNR Legislative Liaison
Ann LeClaire-Mitchell, DNR Wildlife
Kevin Nichols, DNR Budget and Support Services
Theresa Pohl, DNR Fisheries

Brandon Reed, DNR Financial Services
Jane Schultz, DNR Budget and Support Services
Eric Sink, DNR Financial Services
Kelley Smith, DNR Fisheries
Jim Wood, DNR Grants, Contracts and Customer Systems

Chairman Parfet called the meeting to order at 8:40 a.m. The minutes from the October 18, 2002 and January 21, 2003 meetings of the NRC Policy Committee on Finance and Administration (Committee) were approved by the Committee.

INVESTMENT ASSET ALLOCATION

Chris Meyer gave a PowerPoint presentation and brief description on various aspects of Asset Allocation. Assumptions for individual funds used in the models, depicted in the handouts distributed, were Michigan Natural Resources Trust Fund (MNRTF), the Game and Fish Protection Trust, State Park Endowment Fund, Michigan Civilian Conservation Corps (MCCC) Endowment Fund, Non-Game Wildlife Fund and the Lifetime License Trust. Observations for all six funds were 1) the higher the stock exposure, the higher the value to distribute over time, 2) the higher the bond exposure, the higher the growth in assets, due to lower volatility and distribution of all earnings, 3) the higher the stock exposure, the more volatile (higher standard deviation) the growth in assets and the amount available to distribute, and 4) distributing all interest and earnings inhibits growth in market value.

Chairman Parfet stated that we may need a statutory change to allow us to distribute a percent of the corpus as opposed to designate where the source of the money is and whether it is dividend or interest. **Joe Frick** stated that we need to set targets for fund balances so that potential fluctuations in the market could be absorbed. **Chairman Parfet** asked that at the next Committee meeting, Chris Meyer and Joe Frick make recommendations for the key funds regarding 1) asset allocation, 2) distribution methodology, and 3) any potential statutory issues to what is being recommended.

BUDGET UPDATE

Kelli Sobel gave an overview of DNR's 2004 Budget Recommendations. All of the General Fund support for State Parks was removed from the budget. DNR replaced that with three sources: 1) \$6 million from the State Park Endowment Fund that came from the increase under Proposal 2 where the Department can spend half of the revenue and all of the interest, 2) increase the entrance and camping fees, and 3) use a small portion of the Park Improvement Fund Balance.

The NRC has asked this Committee to look at the proposed camping increases, which would go into effect in 2004, and make a recommendation. Staff suggested looking at camping amenities when talking about fee increases. Staff suggest looking at a fee structure that is simpler than the current system which would raise camping fees based by the amenities at the park, such as vault or flush toilets, hand pumps, 50 amp versus 20 amp electrical service, direct sewer hookup, and occupancy rate.

Representative Tabor inquired as to the number of state parks that reservations can be made on-line. **Jim Wood** responded he did not have the exact number of parks, but the number of on-line reservations at state parks is increasing.

David Johnson stated that the Waterways Commission is working aggressively on the on-line Harbor Reservation System and that it is working very well. He is interested in mapping the occupancy rate with amenities to see the correlation between the two of them, but clearly supply and demand is what people are used to.

Kelli Sobel stated the other issue for consideration is increasing the entrance fee. DNR is asking the Legislature to move that authority to the NRC so the entrance fees can be changed from \$20 to \$24 for an annual park sticker, and \$4 to \$6 for a daily park pass. We have not increased entrance fees since 1995.

PAYMENTS IN LIEU OF TAXES (PILT)

Kelli Sobel stated that Governor Granholm has recommended changing purchased land to \$2 per acre, which is what we pay on our tax reverted land. Of DNR's 4.5 million acres, 3.5 million acres are tax reverted land. **David Bertram** commented they did not have a breakdown by Township versus Counties. Some Townships would be harder hit than others. The entire program will be eliminated in a number of Counties outside of Wayne and Oakland Counties. Some Townships have up to 60% of land owned by the state. **Chairman Parfet** stated the NRC would like this Committee to find a solution to this significant tax burden because it is impacting DNR programs. The Committee needs to look at different proposals and options, such as 1) get the parcels off DNR books (we are the conduit for it and we give it back to Department of Treasury), and 2) try to be diligent and look at components of taxes (pay only that which directly benefits DNR and eliminate the rest).

GAME AND FISH FUND

Kelli Sobel gave an overview of Department budget projections made by the Committee, over the past few years, showing \$60 million in revenue; staff has only varied \$1 to \$2 million per year in their projections.

Kelli Sobel asked Dr. Kelley Smith to give a brief overview on the down trend between fishing license holders and the number of fishing license sales. **Dr. Smith** discussed national trends and numbers sold. On a national average license sales increased about 256,000 per year from 1971 to 1991. From 1991-2001 license sales decreased significantly, about 138,000 per year. From 1997-2001 Michigan's fishing license sales declined 8,200 per year. Senior and non-resident license sales have stayed stable. The decline in the 24-hour license accounts for 11% of the decline from 1998. Staff believes this is not based on the actual license cost, but based on the expense of the fishing outing, such as charter boats, river guides, and associated travel costs. In addition, 70% of the decline is in restricted species fishing licenses sold to Michigan residents.

ESTIMATE FOR FUND BALANCES FOR GAME AND FISH FUND

Kelli Sobel stated DNR's 2004 Budget does not include Restricted Fund expenditures for PILT and that economics have not been funded. If the Governor's PILT Proposal is approved, DNR

would not have to pay \$4 million in taxes from the Game and Fish Fund. We do not know what the Department's lapses will be, and given the restrictions that staff are under (i.e. hiring freeze, travel, cell phones, contracting), these numbers may change. **Chairman Parfet** commented that forecasting is an art, not a science. The Department takes action when it sees forecasts it does not like and makes changes accordingly, which is prudent.

FEDERAL FUNDS

Kelli Sobel gave a historical look at apportionment. We are fourth in the Country in receiving Federal Funds, and third in sports fish restoration. DNR staff does a wonderful job in obtaining all of the Federal Funds they can and matching them. We received \$17 million from the Department of Interior. **Kelli Sobel** also gave a brief description of the various DNR Federal Programs and what the Funds can be used for and what we do use them for.

LICENSE FEE LEGISLATION UPDATE

Dennis Knapp gave an update on license fee authority legislation that would give the NRC the authority to establish park entrance fees. This is still under consideration by the Governor's Office.

DNR VULNERABILITIES

Chairman Parfet talked about vulnerabilities and suggests partnering with interest groups to protect the State's assets. The vulnerabilities are:

1. Restricted Funds
2. Who's Managing the Stewardship of DNR Lands
3. PILT
4. Actual Economic Benefits to Programs (cannot always put a price on the value of the resources).

Chairman Parfet stated that we need to vigorously defend ourselves during these economic times. There are two ways to do this and how do we convince those who make decisions that in the grand scheme of things these things are vital to the State.

1. Every time a potential risk occurs (fight back).
2. Launch a more progressive program (be proactive, not reactive).

At the next meeting, this Committee will develop a program that will involve a partnership between DNR, the NRC, elected officials and interest groups so that together we can, in a proactive way, demonstrate to all the benefits of our vulnerabilities in the hope to minimize the risk of doing us irreparable damage.

Dennis Fox stated that identifying DNR's vulnerabilities and outlining the benefits of Michigan's natural resources is something that needs to be done. **Frank Wheatlake** commented overall DNR is a very positive workforce; however, DNR's image needs to be changed. Interest Groups can help us change that image. A more positive, proactive approach from interest groups is needed to show that DNR staff does a good job as stewards of Michigan's natural resources.

Representative Tabor commented that we have a sense of apathy on the part of the people that actually use the lands and resources. Hunters do not get excited about issues unless they feel something is being taken away from them. Hopefully, the Sportsmen Caucus will make a difference to help educate both legislators and the public.

Commissioner Parfet stated the agenda for the next meeting, which will occur in mid-May 2003, will be:

1. Investments
2. Payment in Lieu of Taxes (PILT)
3. License Fee Authority Update
4. Federal Audit
5. Partnering for Natural Resources (Vulnerabilities)

Chairman Parfet adjourned the meeting at 11:15 a.m.

William Parfet, Chair
NRC Policy Committee on Finance
and Administration

Date